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SUBJECT: RESPONSES TO CANADA'S COMPETITION POLICY REVIEW  
PANEL AND THE LIKELY RESULTS FOR CANADA'S ECONOMY

11. (U) Summary: On June 26, the government-appointed Competition Policy Review Panel released its final report entitled &Compete to Win.<sup>8</sup> The Panel was created in July of 2007 and tasked with reviewing Canada's competition and foreign investment policies in order to issue recommendations to the Minister of Industry on how to increase Canada's global competitiveness. The five member panel found that greater competition in Canada's domestic market will boost economic performance and lead to a higher standard of living for Canadians. The report included 65 broad recommendations to which the government has yet to issue a detailed response. Many reports addressing similar issues of competitiveness have appeared in the past and although most were met with approval, they have, with one exception, created few tangible results. In light of these past reports and the broad-based nature of the current report, it seems unlikely that many of the recommendations will translate into direct policy changes. Many critics contend that even if the report's recommendations are adopted, they will do little to change what has been described as the ingrained Canadian distaste for competition. End Summary.

&Compete to Win<sup>8</sup>: Recommendations

12. (U) The Competition Policy Review Panel was created on July 12, 2007 by the federal Ministers of Industry and Finance and charged with producing a report by June of 2008 examining Canada's global competitiveness based on panel research and consultations. The government formed the panel after a string of foreign takeovers in 2006 and 2007 raised questions about Canada's ability to maintain ownership of its economic base. For example, Hudsons Bay Company, Canada's oldest and most iconic retailer, was bought by South Carolina billionaire Jerry Zucker in 2006; in the biggest foreign takeover in Canadian history, aluminum giant Alcan was sold to British mining conglomerate Rio Tinto in 2007; and also in 2007, The Four Seasons hotel chain was purchased by Prince Alwaleed of Saudi Arabia. The panel received input from approximately 300 businesses, law firms, governments, individuals, academics, unions, and cultural and public interest groups in Canada, as well as others from abroad. In addition, the members conducted research studies on various subjects and reviewed best practices with officials from the U.S., Australia, EU, and OECD. While the majority of recommendations are aimed at government and business, the panel hopes the report will be read by all Canadians so as to foster a renewed national competitive mindset. The Panel includes members from diverse regions of Canada with experiences in a variety of industries and is chaired by L.R.

"Red" Wilson, a senior executive with both public and private sector experience and former CEO of Bell Canada Enterprises Inc.

13. (U) The final report's overarching proposition is that being open to competition is in Canada's national interest. To accomplish this, the report recommends the removal of legal, regulatory, and policy barriers to competition as well as the adoption of conditions to create a business environment that allows Canadian companies to compete globally. Some of the Panel's major recommendations to remove these barriers include raising the dollar threshold for takeover bids requiring federal approval; lower and smarter taxes; easier entry for foreign firms into certain sectors; and removing the ban on bank, insurance, and cross-pillar mergers in the financial services industry. The report proposes that the responsibility placed on the bidding firm to prove that a foreign takeover is of net benefit to Canada be shifted to the government to show why the deal is contrary to the national interest. As evidence of the everything but the kitchen sink approach taken by the Panel, the report also extends its recommendations to streamlining immigration policy, improving the post-secondary education system, increasing innovation and R & D funding, and harmonizing provincial and federal regulations. For example, by hastening the immigration process for skilled foreign workers and producing more university graduates with advanced degrees in specialized fields, the report asserts that Canada will have the advantage of a highly educated, skilled, and flexible workforce crucial to attracting investment.

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14. (U) The panel stresses that the recommendations of the report are not meant to solve short-term economic issues, but rather to ensure Canada remains competitive into the future. To this end, the report also suggests implementing a long-term Competitiveness Agenda for Canada. As part of this agenda, the panel proposes the creation of a Canadian Competitiveness Council under the Minister of Industry that would monitor and ensure the country's progress and make a yearly report to Parliament.

#### &Compete to Win: Reactions

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15. (U) The majority of initial reactions to the Panel's report have been positive. According to Ailish Johnson, Senior Director of Competition Panel Response at Industry Canada, the report was well-received by Prime Minister Harper and Minister of Industry Prentice. Prentice is currently studying the report, and the government is expected to issue a formal response in the near future, although there is no definite timeline for its release.

16. (U) A broad coalition of business groups issued a statement applauding the report. Thomas D'Aquino, President of the Canadian Council of Chief Executives, praised its comprehensive, deep, and far reaching nature and agreed that the best way to address concerns about increased foreign acquisitions is by encouraging Canadian companies to compete globally rather than by intensifying protectionism. The Canadian Manufacturers and Exporters support the recommended regulatory changes, but like many of the business organizations, think that the responsibility and mechanisms to increase competitiveness lie squarely in the hands of policymakers, referring to the report mainly as a call to action for governments. In addition to these two groups, the coalition included the Air Transport Association of Canada, the Canada-China Business Council, the Canada-India Business Council, the Canadian Association of Petroleum Producers, the Canadian Bankers Association, The Canadian Chamber of Commerce, Canada's Chemical Producers, the Federation des chambers de commerce du Quebec, the Forest Products Association of Canada, the Insurance Bureau of

17. (U) Academics and think tanks are also overwhelmingly supportive of the recommendations outlined by the panel, as the call for increased Canadian competitiveness has been one that many of these groups have been making for years. Anne Golden, President and CEO of the Conference Board of Canada, sees the report as an important contribution to what must be a nationwide effort to make our country a more creative and successful competitor in the world<sup>8</sup> and says that the report's proposals are fully consistent with the Conference Board's past decade of research on the subject. Finn Poschmann, Director of Research at the C.D. Howe Institute (Canada's preeminent economic think tank), agrees with the implementation of the panel's recommendations and even urges the government to step beyond them in some areas.

18. (U) Among those expressing dissatisfaction with the report were members of the opposition parties in Parliament and were members of the opposition parties in Parliament and consumer groups. President of the Canadian Labor Congress, Ken Georgetti, called the report a waste of time<sup>8</sup> that reflects only business interests and not what would benefit all Canadians. The New Democratic Party's industry critic, Peggy Nash, said the report neglects the real issues affecting citizens and firms, such as the high dollar, rising fuel prices, and deteriorating infrastructure, and seems like a wish list from the Canadian Chamber of Commerce and Council of Chief Executives taken off the shelf.<sup>8</sup> The Canadian Federation of Independent Businesses, while supporting the need for a comprehensive competition policy, criticized the recommendation to allow mergers in the financial sector, and said that this, along with a focus on large corporations, would harm SME growth.

19. (U) Indeed, many reactions focused specifically on the recommendation to allow mergers of financial services companies. While financial industry players call the

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proposal realistic and practical<sup>8</sup> and cite domestic mergers as key for corporations with a small home market to succeed globally, consumer advocates say this would lead to a drop in domestic competition, higher fees, and less customer service for average Canadians. For his part, Finance Minister Flaherty has noted that lowering the bar to allow bank mergers is not a priority for the government.

Background: The Canadian Economic Environment and Past Reports Addressing its Shortcomings

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10. (U) The Canadian problem of lackluster competitiveness is not new, and neither are reports that attempt to solve it. In her book *Why Mexicans don't Drink Molson: Rescuing Canadian Business from the Suds of Global Obscurity*,<sup>8</sup> business writer Andrea Mandel-Campbell attributes the beginnings of Canada's penchant for government protectionism to Sir John A. Macdonald's National Policy of 1879. As Canada's first prime minister, Macdonald sought to nurture Canada's infant industries<sup>8</sup> by enacting high protective tariffs, a plan which Mandel-Campbell asserts, (encouraged) the creation of coddled state-sanctioned monopolies while entrenching a clique of well-connected businessmen trained to seek government favor.<sup>8</sup> However, she says that what really embedded the National Policy into the Canadian way of thinking was its ability to equate the protection of vested interests with a nationalistic endeavor to protect the Canadian identity.<sup>8</sup> This paved the way for the highly-regulated and government-dependent business environment as well as the prevalent supply management regimes existent today. Farmers in the dairy and poultry industries must participate in the supply management system by buying quota in order to be able to produce and sell their product. Those who grow wheat must sell it to the monopsonistic Canadian Wheat Board, which defends its

necessity by saying that without the Board, farmers would be unable to get a competitive price for their crop. Both systems, their critics argue, ensure that demand always exceeds supply and consequently, consumers pay higher prices. Furthermore, supply management provides no incentive for farmers to increase innovation or efficiency.

¶11. (U) While government intervention is still present in many sectors of industry, in the recent past Canada has taken steps to privatize some of its state-owned enterprises. Former federal entities include the Canadian National Railroad (privatized in 1995), Air Canada (privatized in 1988), Canadair Aerospace (privatized in 1986), and Petro-Canada (privatized in 1991).

¶12. (U) Although the current Panel's report is the most broad-based review yet undertaken of competition policy and its effect on the Canadian economy, many reports addressing related issues have been produced in the past by both government appointed panels and think tanks. The 1982 Royal Commission on the Economic Union and Development Prospects for Canada, also known as the MacDonald Royal Commission, was the first and clearly the most significant blue-ribbon committee to explicitly address competition issues. The Qcommittee to explicitly address competition issues. The panel was appointed by Prime Minister Trudeau due to concerns about a slowing economy and a political process which seemed ill-equipped to generate effective policy solutions. Released in September of 1985, the final report recommended a shift from government intervention to market forces and greater social equality while maintaining the welfare state, along with the implementation of a free-trade agreement with the U.S. While no government consensus was ever reached to act upon the other recommendations, the report was instrumental in building momentum for the eventual U.S.-Canada Free Trade Agreement of 1988 and set a precedent for successive overarching reviews of Canadian economic performance.

¶13. (U) The most comprehensive study released prior to 2008, s &Compete to Win8 came out of &Canada's Innovation Strategy8 that was pursued by the Liberal government from 2001 to 2005 and generated the paper entitled &Achieving Excellence: Investing in People, Knowledge and Opportunity.8 This, along with its accompanying report &Knowledge Matters: Skills and Learning for Canadians,8 concentrated on

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ways to increase innovation in the Canadian economy by investing in continuous education and training for Canadian people. The House of Commons Standing Committee on Industry, Natural Resources, Science and Technology held meetings with witnesses from a variety of sectors during this time to gather different views on the reports. The Innovation Strategy was already gathering dust when Parliament was dissolved in November of 2005, and was effectively aborted when the Conservative government took power in February of ¶2006. In addition, think tanks and the Conference Board of Canada have released various papers on the benefits to the Canadian economy of increased competition.

¶14. (U) While the reactions to these previous reports were also generally positive, in hindsight, they were largely academic exercises, as few tangible policy changes or increases in the global competitiveness of Canadian companies resulted from their publication. The 2001 "Achieving Excellence" report was criticized for being too broad, which was cited as a primary reason for its failure to instigate any real change. While those who undertake the studies believe, or come to believe, in the benefits of competition, there is no actual momentum from outside the primarily academic or policy communities to increase Canadian competitiveness. Furthermore, the business leaders that are part of this community of supporters see it as the government's job to foster competition policy and have not made significant changes to the way they do business.

Likely Results of &Compete to Win8: What (if anything) will it do for Canada's economy?

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¶15. (U) Although the Conservatives have stated that they will take the panel's report seriously, it will likely take much more than just the support of the current government to bring forth the changes necessary to make Canadian companies into global players. To increase Canadian competitiveness, the country will need the cooperation and initiative of provincial and federal governments, business, and the Canadian public. However, as Mandel-Campbell points out, at the heart of the issue is a Canadian ideology that is indifferent, if not adverse, to competition; a problem which the panel touches on briefly, but whose reversal is truly the key to unlocking Canadian competitiveness and paving the way for the full thrust of the report to be realized. Jeffrey Simpson, The Globe and Mail's national affairs columnist, agrees with Mandel-Campbell, saying that, &the prime answer. . . is the Canadian mindset.8

¶16. (U) While the general public has yet to realize that it even plays a role in stimulating Canadian competitiveness, businesses, for the most part, simply refuse to recognize theirs. Business leaders use the lack of government movement on competition policy reform as an excuse for why their companies are not competitive abroad. Roger Martin, dean of the Rotman School of Management at the University of Toronto and chair of the Institute for Competitiveness and Prosperity, says, &too many of our business leaders and QProsperity, says, &too many of our business leaders and government polices are aimed at preserving what we have rather than playing to win.8 Mandel-Campbell makes the case that instead of finding ways to compete globally in spite of government regulation, many rely on the government both as an explanation of why they are not global players and as a source of protection from foreign corporations who are increasingly competitive in the global marketplace. With some Canadian firms lobbying for the government to increase competitiveness and others wanting to remain under its protectionist policies, in the absence of a strong public opinion outside of academic circles, the government is stuck between the lobbies of industry with no incentive to decisively choose between the two.

¶17. (SBU) Comment: With such a broad report and no strong public impetus to move forward with competition policy, it is difficult to see how government policymakers managing important but only indirectly related areas addressed by the panel, such as higher education and immigration, will be inclined to make reforms solely with the goal of increasing competition. While in the short-term, Canada's place in the North American economy is unlikely to change drastically, a

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failure to address the various non-competitive facets of the domestic market will position Canada at a disadvantage for the future and will be increasingly more difficult to correct as the global marketplace expands. End Comment.

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